



# The Bulletin

January  
1981

Department of Education

Office of Student Financial Assistance

## Notes From the Deputy Assistant Secretary

On December 16, 1980, the Congress passed a Continuing Resolution which postpones the October 1, 1980 effective date of the increase in the National Direct Student Loan (NDSL) interest rate from 3 to 4 percent. Effective July 1, 1981, the interest rate will be 4 percent. Therefore, all the loans you make through June 30, 1981, should reflect a 3 percent interest rate. All the other changes required by the Education Amendments of 1980 remain in effect.

We recognize that this change at this time creates administrative problems for many institutions. Therefore, we are providing the following guidance for you in carrying out this change:

1. For those institutions that have made loans under the new provisions, the notes made at 4 percent continue to be in effect; however, you must change the interest rate from 4 to 3 percent. This change need not be initialed by the student, but only by the staff member making the change. Students should be notified of the change either by letter or in the exit interview.

2. Institutions that have not made loans under the new provisions may continue to use their existing notes at the 3 percent rate and may simply notify students in writing during the exit interview or by letter of the new deferment, cancellation, and credit bureau provisions.

The Department of Education understands the difficulty institutions may have in immediately complying with all the statutory changes made in the NDSL Program during the 1980-81 award year, since these changes were made during the middle of the year. Accordingly, when monitoring an institution's compliance in the NDSL Program for the period October 1, 1980 through June 30, 1981, the Department will not assess liabilities against an institution for errors or technical timing problems involved in implementing these changes.

Sincerely,

  
Thomas A. Butts

## Basic Grant Administrative Allowance Authorization Letters Mailed

On October 3, the Education Amendments of 1980 were signed into law. One of its provisions authorizes an administrative allowance of \$10.00 per award year for each valid Basic Grant recipient enrolled at eligible institutions participating in the Basic Educational Opportunity Grant (BEOG) Program. Authorization letters were mailed to institutions in late December. The initial amount each institution will receive is based upon the total number of valid, unduplicated recipients the institution reported during 1979-80.

Upon disbursing a student's first payment, institutions are entitled to draw down \$10.00. These funds should be drawn down from DFAFS in the normal manner. When you report your administrative allowance expenditures on the DFAFS 27 report, use the document number indicated in the authorization letter. Please note that this is a different document number than the one used to report disbursements to students; the first digit is an "R" rather than a "P". *Do not report the expenditure of administrative allowance funds on your institutional progress report.*

The final adjustment to your administrative allowance will be calculated after we receive and process your June 30 Progress Report. The amount will be equal to \$10.00 times the total number of valid, unduplicated recipients your institution has reported for the 1980-81 award year. Since any Student Eligibility Reports (SERs) submitted after your end-of-year (June) Progress Report will not be considered in determining the administrative allowance, it will be to your advantage to submit all valid SERs in your possession on or before the July 15, 1981 June Progress Report due date.

The following categories will be excluded when we determine your institution's valid recipient count for purposes of the administrative allowance:

1. Ineligible or rejected (insufficient information) SERs. (These should not be reported to ED under

any circumstances).

2. Duplicate SERs.

3. Multiple (valid) SERs submitted by the same funded institution for one student.

A student is considered to have received a Basic Grant only when the school has evidence that the grant was disbursed. It is not acceptable for a school simply to count the number of SERs submitted. No recipient may be counted more than once for purposes of the administrative allowance in any award period by a single funded school.

The following guidelines have been developed to answer questions which may arise concerning when an institution is eligible for the administrative allowance:

1. When an institution has an ownership change, the owner in possession at the time a recipient receives his first payment would be entitled to the administrative allowance for that recipient. The new owner would be entitled to the administrative allowance for those new recipients who receive their first payment after the point of sale. It will be the responsibility of the two owners to make any adjustments necessary at the time of sale to fulfill this requirement.

2. The school is entitled to a full payment if it has a recipient for only part of the year or a drop-out with a full fund recovery. The school is not entitled to any administrative allowance if the student was enrolled, but did not attend any classes.

3. If a student attends and receives Basic Grant awards at two or more institutions in one award period, then all funded schools disbursing Basic Grant awards to the student would be entitled to full allowance.

In developing the procedures for distributing and reporting the administrative allowance, we have attempted to make the process as simple as possible for both the institutions and the Department of Education. If you have any questions concerning these procedures, please call your Basic Grant area representative at 202-245-1271.

## Up-Date on Eligibility for Title IV Aid Cuban/Haitian Entrants and Other Non-citizens

ED staff recently concluded extensive meetings with officials of the U. S. Immigration and Naturalization Service (INS) regarding documentary requirements to enable non-citizens to receive title IV aid. The following paragraphs summarize the latest information provided by INS and reflect additions *that are in effect for 1980-81*. The *Counselor's Handbook*, which will be distributed in late January, completely summarizes citizenship requirements and should be used as a reference for 1980-81 and 1981-82.

In the spring and summer of 1980, many Cubans and Haitians began entering the U. S. (In just a few months more than 100,000 Cubans entered south Florida.) Because of legislation enacted in 1980, the Cuban/Haitian entrants did not officially qualify as "refugees." However, the Administration has proposed legislation to legally admit these entrants. Prior to enactment of the law changing their status, Cubans and Haitians who have an I-94 with the following endorsement may remain legally in the U.S. and are eligible for title IV assistance:

**Cuban/Haitian Entrant (Status Pending)  
Reviewable January 15, 1981  
Employment Authorized until  
January 15, 1981**

The Administration has recently extended this special status until July 15, 1981. Current identification bearing the January 15 date will be valid through July 15 without any action necessary on the part of the holder. In the September Bulletin, we announced that eligibility was extended only to those Cuban/Haitian entrants who entered between April 21 and June 19, 1980. That time limitation has been removed - *Cuban/Haitian entrants with an endorsement like the one shown above are eligible to receive title IV aid, regardless of their date of entry.*

The alien who has submitted an application for permanent residence and has an I-94 bearing the endorsement "adjustment applicant" is eligible for title IV aid. In some cases the endorsements "245," "245 applicant," or "Applicant for Permanent Residence" may be provided on the I-94 in lieu of "adjustment applicant." Because INS may not automatically provide these endorsements, it may be necessary for the student who has applied for permanent residence to request an endorsement

from INS. In a few cases, a student may have a form I-181a or I-181b, which are also acceptable proof of application for permanent residence.

We have also been informed that the terms "conditional entrant" or "refugee" may appear on the I-94 of a refugee and either is acceptable proof of eligibility for title IV aid in 1980-81.

## Basic Grant Processing Contract Awarded to Systems Development Corporation

On September 30, 1980 the Department of Education (ED) awarded a contract to Systems Development Corporation (SDC) for the processing of Basic Grant applications for the 1981-82 cycle. The SDC proposal includes subcontracting with two Washington area firms: Applied Research and Technology of Washington (ARTW) and American Institutes for Research (AIR).

SDC's office in McLean, Virginia will serve as the management and development center for the contract. All operational functions will be done at SDC's extensive facilities in Santa Monica, California.

Work has begun on conversion and development of the 1981-82 system. Application processing is scheduled to begin in February 1981.

This contract may be renewed, at the option of the Government, to cover 1982-83 and 1983-84 processing cycles.

American College Testing (ACT) will continue to do all processing for the 1980-81 cycle.

## Toll-Free Service to Begin at SDC Application Processing Center

Beginning February 2, Systems Development Corporation (SDC) will have toll-free numbers available to answer questions concerning applicants' 1981-82 Basic Grant applications. The numbers will be installed by January 15, but until February 2, students will hear a recording which refers them to Biospherics. Biospherics will answer questions on both 1980-81 and 1981-82 Basic Grant applications.

The following is a list of our toll-free information numbers:

**1981-82 Basic Grant Processing Center  
System Development Corporation (SDC)  
8:30-7:00 p.m. (EST) Monday-Friday.**

**800-423-6932  
800-352-8671  
800-423-6872**

**California  
Hawaii and Alaska**

**Student Information Center  
Biospherics Inc. (BIO)  
(BIO will answer questions about both 1980-81 and 1981-82 award years)  
8:30-6:00 p.m. (EST) Monday-Friday**

**800-638-6700**

**Continental U.S.  
(except Maryland)  
Puerto Rico  
Virgin Islands  
Maryland**

**800-492-6602**

**1980-81 Basic Grant Processing Center  
American College Testing (ACT)  
(ACT will continue to answer questions about the 1980-81 award year)  
7:30 - 6:00 p.m. (CST) Monday-Friday**

**800-553-6350  
800-272-6490  
800-553-6270**

**Iowa  
Alaska and Hawaii**

## ED Amendments Eliminate Four Year Limit of Pell (Basic) Grant Eligibility

Because of recent passage of the 1980 Education Amendments, effective October 1, 1980, students can receive Pell (Basic) Grants for the time needed to complete an undergraduate program. New SERs will be sent to approximately 14,000 1980-81 applicants who were rejected (no eligibility index printed) by the 1980-81 Pell (Basic) Grant processing system because they have reached the limit of Pell (Basic) Grant eligibility. Prior to passage of the 1980 Amendments, students were limited to four full years of Basic Grant payments (except under special circumstances a student could receive up to five full years).

By mid-October, comments on the SER about the limitation of student eligibility were no longer being produced by the processing system. However, students who remained rejected by the system

because they had already received four full years (or five) of Basic Grant payments needed to be notified directly of the change in the law. Students who received an information comment on the limitation of student eligibility but were not rejected for that reason will not receive a new SER.

**Payment.** Any student may be paid who was otherwise eligible for a Basic Grant on October 1, 1980 and who failed to submit an SER because (s)he was rejected for the five-year limitation of eligibility. Those students may be paid retroactively for any term which was in progress on October 1, 1980. This is true even if the student is no longer eligible at the time (s)he submits the new SER. However, students must submit the new SER by the end of the 1980-81 award year in order to receive a Basic Grant.

Some students were not paid a 1980-81 Basic Grant because institutional records showed that they had reached the limit of their Basic Grant eligibility. Institutions should notify these students of the change in the law. These students would also have until the end of the 1980-81 award year to resubmit their SERs for payment.

## Updating Projected Data Submitted on the Basic Grant Application

The March issue of *The Bulletin* (page 4), mentioned that four projected data items on the Basic Grant application must be updated if the original estimates for those items proved to be incorrect. Those data items are:

- 1) Several of the dependency questions in Section B of the application;
- 2) The Household size;
- 3) The number in postsecondary education, and;
- 4) Veterans benefits.

In the June issue of *The Bulletin* (page 7), we indicated that—for the 1980-81 award period—if an independent applicant marries after applying for a Basic Grant (s)he will have to update the household size by including the new spouse, change his or her marital status to “married”, and report the spouse’s income and assets so that they may be included in the reevaluation of the applicant’s eligibility. This was explained in greater detail in the September issue of *The Bulletin* (page 2).

For the 1980-81 award period the above rules apply. However, some additional explanation is necessary. The number of people representing the household size should ideally reflect the number in that category throughout the award period. This will not always be the case, of course. For example, a student’s household size may be four for 10 months of the award period and two for the remaining two months. In such a case, we would not want the student to change his household size from four to two. In fact, it would seem reasonable to consider that a household size that existed for more than one-half of the award period should be considered to be the true household size for the entire award period. Thus, a student who remains unmarried until January 1, 1981—and then marries—should not update his household size for that award period. Similarly, if a student’s household size is four for more than six months of the award period, and after that period of time one of the members leaves, the student should not update the household size.

For the number in postsecondary education, if a family member has attended a program of postsecondary education at least half-time for any part of the award year, that person would be counted in determining the number in postsecondary education. For Veterans benefits and the dependency questions, any changes in the 1980-81 award period should be reflected.

## Status of Student Financial Aid Regulations

As a result of the Education Amendments of 1980, the following final regulations have been published in the FEDERAL REGISTER:

December 29	-State Student Incentive Grant Program
December 30	-Pell Grants Administrative and Technical (formerly Basic Grants)
December 31	-Student Assistance General Provisions
January 16	-GSL—Deferment
January 19	-Campus-Based Programs
January 19	-GSL—Parent Loans for Undergraduate Students
January 19	-1981-82 Pell (Basic) Grants Family Contribution Schedules



January 21 -Cost of Attendance

A final regulation for institutional refund policies for schools participating in the GSL Program was published on January 16.

A Notice of Proposed Rulemaking (NPRM) is scheduled to be published in April on the 1982-83 Need Analysis and Common Form.

## Coop Earnings—To Report or Not?

This further clarifies the circumstances of a student reporting on the Basic Grant application, earnings received while enrolled in a cooperative education program.

Earnings from a coop job that are used to defray education expenses may be considered a form of financial aid and, therefore, should *not* be reported if the coop program is a part of the student's financial aid package. If the coop earnings are not a part of the student's financial aid package, they *cannot* be considered a form of financial aid and, therefore, *must* be reported.

## Notice of Credit Bureau Workshop

The Education Amendments of 1980 require the Secretary of Education to enter into agreements with credit bureaus for the purpose of exchanging information about defaulted student borrowers under the Federal Insured Student Loan Program. A day-long workshop is scheduled for Wednesday, January 28, 1981. Representatives of the credit bureau industry will be asked to explain their services and operations. The workshop will take place in Washington, D. C. All persons interested in attending this workshop should call or write for more information.

### Contact:

Mr. Nat Coluzzi  
Special Assistant to the  
Deputy Assistant Secretary, OSFA  
Department of Education  
ROB-3, Rm. 4662  
400 Maryland Avenue, S. W.  
Washington, D. C. 20202  
(Telephone: 202-245-0231)

## NDSL—Semi-Annual Report of Defaulted Loans

ED Form 574, Report of Defaulted Loans has been revised to correlate with the reporting requirements of Section C—Cumulative Repayment Information of the Fiscal Operations Report, ED Form 646. Information submitted on Ed Form 574 as of June 30, 1980, will have to be updated via additions or subtractions to the appropriate line item in order to furnish the required information as of December 31, 1980. If you have not yet received the revised ED Form 574, it should arrive shortly. However, if you do not receive the form by March 2, please contact the Services and Collections Section on (202) 245-2991 or 245-2992.

We have received several inquiries that have led us to believe that there is some misunderstanding regarding the proper classification of default status. Section 174.2 of the August 13, 1979, FEDERAL REGISTER publication of the NDSL regulations stipulates "...if the institution reasonably concludes from written contacts with the borrower that he or she intends to repay the loan, the borrower is not considered in default...." Therefore, the receipt of one minimal payment on a defaulted account, by either the institution or its agent, does not automatically change the status of that account. A pattern of repayments must first be established or the institution must have other written evidence of the borrower's intent to repay before a determination to change the classification of an account can be made. In accordance with the governing law and regulations, the institution to which the loan is payable has the ultimate responsibility for making decisions regarding the collection, cancellation, or deferment of National Direct Student Loans.

## Plans Underway for New Parent Loan Program

Plans are being made to implement the Parent Loans for Undergraduate Students (PLUS) Program, a provision of the 1980 Education Amendments. Letters have been sent to guarantee agencies, asking whether they intend to participate and asking for an estimate as to when they will begin operation. A Notice of Proposed Rulemaking (NPRM) has been published; and the separate common application form for PLUS is now in the final stage of development. The program will be operating in a few states during 1980-81 but, for the most part, these loans will not be generally available until 1981-82 because of

the need for guarantee agencies to change state laws, develop new forms and procedures, and establish new computer software.

The program will have essentially the same provisions as the Guaranteed Student Loan (GSL) Program. Parents may borrow up to \$3,000 per student, per year, up to \$15,000 per student. Deferment, death, disability, and bankruptcy provisions are the same as those in the GSL Program. Unlike GSL, PLUS loans are available to parents of dependent undergraduate, not graduate, students. The other exceptions are that there is no interest subsidy, and loan repayment must begin within 60 days after loan disbursement. The interest rate at this time is 9 percent.

### 1981-82 Funding Calendar Campus-Based Programs

<i>Date</i>	<i>Milestone</i>
November 17	Postmark deadline for mailing of FISAP
November 17	Eligibility deadline for new applicants
late January	Central Office selects institutional appeal panel members
February	Division of Program Operations (DPO) provides regional office with procedures for review and transmittal to Washington of NDSL due diligence check-sheets
late January	DPO provides Division of Certification and Program Review (DCPR) with listing of all new applicants
early February	DPO runs machine edit of FISAP data and mails edit printouts and letters to institutions
early February	DPO mails NDSL due diligence checksheets to institutions with 1979-80 default rate greater

than 10 percent which did not reduce it by at least 25 percent. A listing of these institutions will be sent to regional offices.

late February	Deadline for institutions to return edits to DPO
late February	Deadline for institutions to submit due diligence check-sheet to regional office
late February	Deadline for regions to advise DPO by telephone of institutions not exercising due diligence
early March	DPO mails tentative funding level worksheets to institutions and regional offices
late March	Deadline for institutions to send appeals
early April	Central Office screens appeals and convenes National Appeal Panel
late April	DPO sends Notification of National Appeal Action to institutions
early May	DPO obtains listing from DCPR of institutions for which funds should be earmarked but no funds should be allocated, and institutions whose funding should be cancelled.
late May	DPO sends final allocation letters and worksheets to institutions and regional offices

## Questions and Answers on Student Financial Assistance

The following is a continuation of questions and answers on various aspects of the Federal student financial aid programs:

### Student Application Process

**Q.** Can a school release to students the financial information of their parents that is reported on the financial aid application (MDE)?

**A.** The Family Education Rights and Privacy Act, Section 438(a)(1) (20 U.S.C. 1232g) does not require institutions to make such information known. However, this section of the act does not prohibit this information from being transmitted.

**Q.** After filing a Basic Grant application a student files a Supplemental Form because of the death of the wage earning parent. However, the student's financial circumstances improve because of Social Security benefits and insurance settlements. Does the student have a choice of using either SER?

**A.** Yes. The use of a Supplemental Form is always optional. A student who files a Supplemental Form is not committed to use that SER if, he/she prefers to have eligibility determined by base year data. The student can choose to use either SER.

### Basic Grant-General

**Q.** A community college which is an eligible institution does not receive approval from the state community college board for a new certificate program until April. Can a student in the program since November be paid a Basic Grant for his/her enrollment between November and April?

**A.** Yes. New programs at eligible community colleges do not require independent state board approval for purposes of student financial assistance. However, new programs must meet the standards for eligibility described in section 190.3 of the Basic Grant regulations (January 25, 1979, FEDERAL REGISTER). If the financial aid administrator has any doubt as to the eligibility of newly added program(s), the aid administrator should contact the Division of Eligibility and Agency Evaluation at (202) 245-2943.

**Q.** Are there any circumstances in which income earned in off-campus cooperative education programs can be considered to be student financial aid?

**A.** Most cooperative education jobs would be held off-campus. However, regardless of whether a cooperative education job is held on or off-campus, it would be considered to be student financial aid if it were awarded on the basis of need and is considered by the financial aid office to be part of the student's aid package. (see p.5)

**Q.** Must an institution complete the award section of the SER if another means is used to notify a student of his/her award?

**A.** A copy of the SER should be given to the student. However, the award section on the student's copy does not have to be completed if the same information is included on the institution's award letter or by some other means.

**Q.** Will half-time awards for students continue to be 50 percent of full-time awards in the 1980-81 payment schedule for the Basic Grant Program? Also, will the \$200 minimum for a Basic Grant still be maintained?

**A.** Half-time awards will not equal 50 percent of full-time awards. When the 50 percent amount is subtracted from the academic year award when using the full-time, three-quarter time, and half-time Payment Schedules, the percentage relationships of 75 percent and 50 percent for the three-quarter and half-time Schedules become skewed. For example, if a student is normally entitled to a \$400 per semester Basic Grant award or an \$800 academic year award under the 1979-80 schedule, this same student enrolling as a half-time student would get \$200 for fall and spring semesters. For the 1980-81 award period, the full-time student with the same Eligibility Index would get \$750 for an academic year and a half-time student would get \$350 for an academic year. \$350 is not 50 percent of \$750. Minimum awards will be less than \$200.

**Q.** A student filed as a single, independent student for the 1979-80 year. If the student then marries, does the SER need to be updated?

**A.** For the 1979-80 award period, the SER does not have to be updated unless either the Department of Education or the institution chooses to validate the SER. If validation is not undertaken, the SER does not need to be updated assuming that the information on the original application was correct at the time it was filled. The rules for updating projected information in the 1980-81 award period are discussed on p. 4 in this issue of *The Bulletin*.

**Q.** A student files as an independent married student because she was claimed as an exemption on her husband's tax return. However, the student was also claimed on her parents' tax return for 1979. What is the student's correct status?

**A.** If the student was claimed as an exemption on his/her parents' tax return for 1979, he/she is a dependent student. Therefore, his/her application as an independent student was not valid. Payment for



# 8

the second SER based on the dependent filing status should be made if the student is eligible.

## Validation

**Q.** The parent of a dependent student is a minister who does not pay the mortgage for the house he owns because those payments are made by his church. Since this student is being validated, how does the financial aid office verify non-taxable income? If utilities are paid by the church, should this also be considered in calculating non-taxable income?

**A.** Utilities are considered in calculating non-taxable income as long as they are part of the housing allowance. The financial aid administrator is advised to find out how much the church paid in mortgage payments during the base year on behalf of the minister, using this amount as non-taxable income. This information should be verified in an official communication from the church and signed by an official other than the minister in question.

**Q.** In the 1980-81 Validation Procedures Handbook, page 13, it indicates "if the applicant claims no tax return was filed, the financial aid administrator may request that the applicant obtain a statement to that effect from the Internal Revenue Service." If this is discretionary authority, what other documents might the financial aid administrator request?

**A.** Although, for validation purposes, the IRS statement is preferred, a detailed statement from the student indicating that no IRS 1040 was filed would suffice. If there is any reason on the part of the financial aid administrator to question the integrity of this information, IRS verification should be requested. It should be noted that the Internal Revenue Service responds very quickly concerning the non-filing status of individuals.

## Financial Aid Transcript

**Q.** Can an institution develop a policy that no Title IV funds will be issued until financial aid transcripts requested are received?

**A.** Yes. The institution can develop its own policy stating that financial aid transcripts must be received before Title IV funds will be issued. As with all institutional financial aid policies, it must be applied consistently. New regulations, published in June 1980, permit institutions to make a first disbursement before a financial aid transcript is received. However, an institution must have a transcript before a second disbursement can be made.

**Q.** Should an institution indicate on the transcript that a student has defaulted on a loan if that loan has been assigned to the Department of Education (ED)?

**A.** An institution should indicate on the transcript that a student has defaulted on a loan, even if that loan has been assigned to ED. The institution is not responsible for knowing whether the student is still in default. If an institution has assigned a defaulted loan to ED, the institution may not withhold a financial aid transcript on the basis of that default since the institution will not have any knowledge of whether the loan is still in default after it has been assigned to ED. Of course, the institution receiving such a transcript is not prohibited from disbursing Title IV funds.

## Improvements Made On 1981-82 SER

All financial aid administrators and high school counselors will receive a letter in January or February outlining all changes to the 1981-82 Basic Grant forms, including the student eligibility report (SER). The following improvements have been made to the 1981-82 SER:

- The 1981-82 SER will be 8 1/2" x 11". Information will be printed on the front and back of the paper.
- The paper will be tinted light blue.
- Eligible students will receive 3 copies of the SER. All other students will receive only 2 copies. The copies will not be attached.
- A different instruction sheet will be inserted for eligible, ineligible, or rejected students and for students who filled out the Special Condition Form.
- The SERs will be mailed in a standard #10 brown envelope.
- Rejected students will receive a return envelope in which to mail corrections to the Basic Grant central processor.

*Section 1:* will contain comments to the student about his/her application, Section 1 will appear on the left half of the front and continue on the back of the SER. The student certification (to be completed only when changes are made to information on the SER) will appear at the bottom of Section 1 on the front of the SER.

*Section 2:* will show all the information from the student's application. Section 2 has been reorganized to resemble the format of the Basic Grant application. It will be much easier to locate specific information in Section 2.

*Section 3:* will be completed by financial aid administrators with payment information. The student's identifier (first two letters of the last name, Social Security number, and transaction number) and eligibility index will be printed in Section 3 by the central processor. The student's name and address will appear on the back so that the student can be identified without turning the SER over. The data to be reported in Section 3 will be the same in 1981-82 as in 1980-81 except that we no longer request "Expected Number of Months in School." Section 3 will only be printed on the SERs of student's who are eligible (with an eligibility index of 1700 or less). The Family Contribution number (FC) will appear in the lower right hand column on the back page of the SER. This FC number may be used by institutions to award Federal campus-based or institutional aid.

FRONT

Section 1 — (Comments)	Section 2— (Information from the application)
	_____
	_____
	_____
	_____
	_____
Certification	

BACK

(Address:)	
Comments (cont.)	
	Section 3— to be filled out by FAAs)

## Validation, Edits, and Application Processing Study Completed

One of the management objectives of the Office of Student Financial Assistance (OSFA) last year was to reduce the amount of student misreporting on Basic Grant applications and to increase the rate of awards based on accurate information. OSFA has instituted several procedures for detecting and correcting errors on applications.

An analysis study was recently completed for OSFA entitled "Validation, Edits and Application Processing Study" (VEAPS). The purpose of this study was to evaluate the effect of using two of the procedures—application processing system edits and pre-award validation of selected applicants who are validated by financial aid administrators—for correctly awarding Basic Grants. The study was based on data obtained from the 1979-80 applicant and recipient files. At the time the data was extracted, the Basic Grant population was 3.9 million applicants.

There were 317 different computerized comments generated by the processing system. This study examined only the 176 comments which pertained to applicants who filed a regular application and addressed critical application items. Critical application items are defined as those which have a major influence on the computation of the student eligibility index and/or affect whether an applicant is selected for validation. Most corrections to critical fields occur prior to selection for validation or the determination of eligibility.

The study indicated that the processing system edits had a substantial effect on how applicants made corrections. About 42 percent of all applicants received at least one comment addressing a critical application item. Most of the comments generated addressed the following four key income fields: adjusted gross income, taxes paid, portions earned by father, mother, applicant, or spouse, and non-taxable income. Rejection edits solicited more frequent corrections than the other less stringent edits. (Less stringent edits are those edits which allow the application to be processed, rather than rejected, although (a) specific data item(s) may be questionable. The processed Student Eligibility Report includes a comment alerting the student to review such data items and, if necessary, to make appropriate corrections.) Corrections students made following rejection edits also had a greater effect on the applicant's potential award: on the average, corrections in response to rejection edits reduced

the applicant's potential award by \$87, whereas corrections in response to nonrejection edits reduced the award by \$1.

VEAPS identified the processing system edits that were the most and the least effective in eliciting significant corrections from applicants. The most effective edits were those that addressed adjusted gross income and taxes paid. The edits pertaining to income reported as zero, negative, or less than \$51, and the edit pertaining to unusual expenses greater than income or \$5000 were the least effective in identifying applicants who had misreported. (These two edits were revised for the 1980-81 processing year).

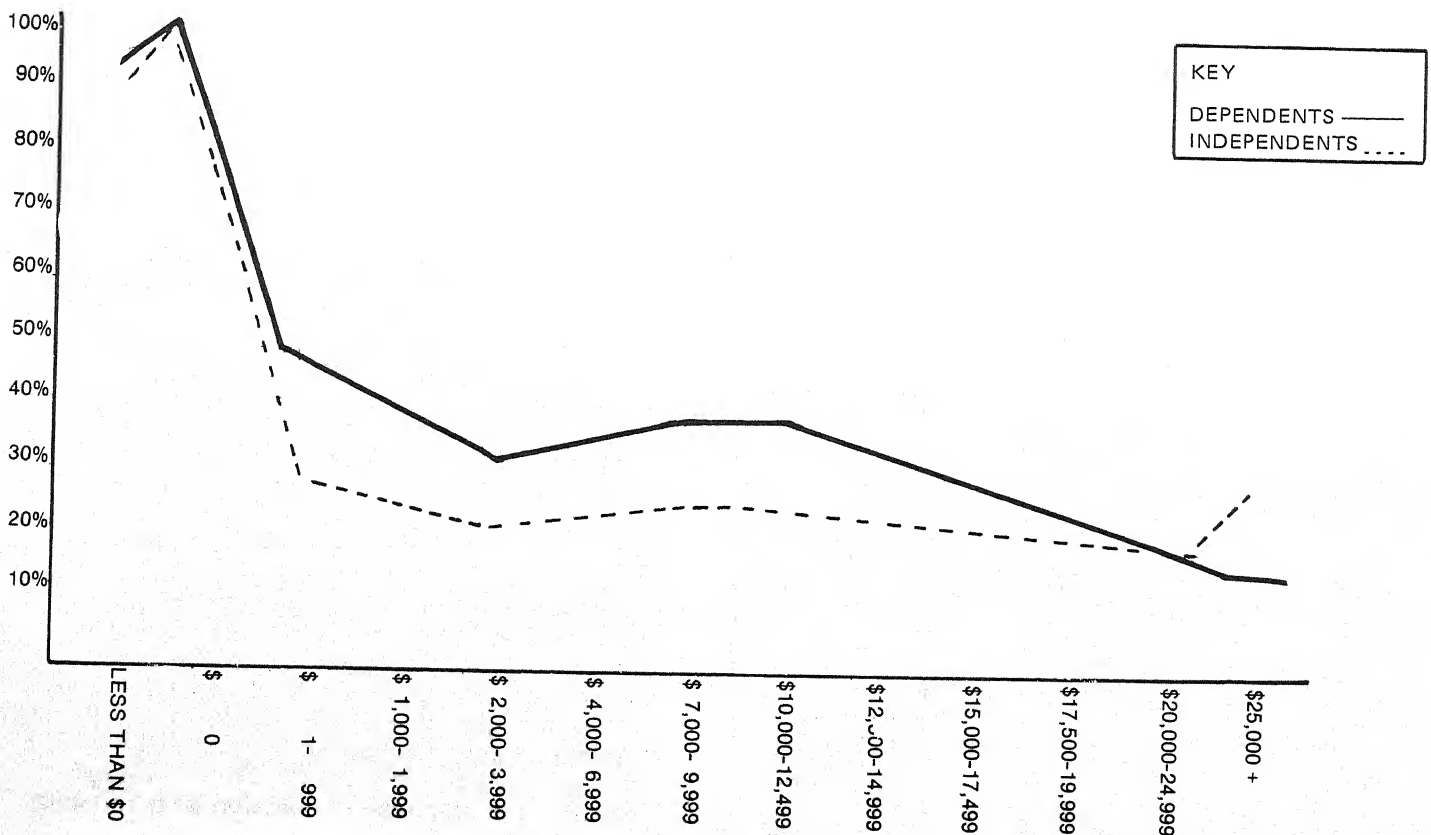
As of June 1980, 36 percent of all applicants who applied for a Basic Grant had been rejected at one time. Of the applicants who received a rejection edit, 79 percent had either corrected or verified the data in question and received an eligibility determination.

The characteristics of applicants most likely to be rejected are those who report zero income, leave critical fields blank, report marital status as deceased, have high unusual expenses, have certain levels of veterans benefits, have farm

assets below \$1000, report non-taxable income greater than \$12,499, report marital status as widowed and report two earned income portions. Applicants with characteristics other than missing data or those reporting marital status as "deceased," tended to re-enter the processing system at a relatively high rate and obtain a SEI. Less than 7 percent remained rejected on two or more transactions. Applicants with blank data fields seldom re-entered the system, while those few applicants who reported marital status as deceased continued to have difficulty. (The 1979-80 Basic Grant application was not clear in informing the applicant to file as independent if both parents were deceased at the time of the first filing regardless of how the applicant would answer the three questions regarding dependency status. The 1980-81 application clearly instructs applicants to file as independent if both parents are deceased at the time of first filing, thus for the most part, resolving this problem).

The processing system edits do not appear to be discriminating against any particular income group except those applicants reporting income below \$1000. In the exhibit below, rejection rates of independent and dependent applicants are displayed by income range. As the exhibit indicates, more than 95 percent of the zero and negative

EXHIBIT 3: REJECTION RATES BY INCOME, DEPENDENTS VS. INDEPENDENTS



income applicants (most of whom were independent) were rejected; the rejection rates of the other income groups show little variation. (The edit for single independent students reporting zero income was reworked for 1980-81.) Rejected zero and negative income applicants continued to have more difficulty re-entering the system (with a much higher percentage of these applicants remaining rejected for two or more transactions), while other income groups showed little or no variation in re-entering the system.

The Department of Education (ED) uses two methods for selecting students for validation. Students are either selected randomly or under pre-established criteria (PEC). Approximately 10 percent of all eligible Basic Grant applicants are selected for validation. As of July 1980, 165,986 applicants had been selected for validation and had appeared on the recipient file. Approximately 78 percent were selected under the pre-established criteria; the other 22 percent were selected randomly. This study showed that selecting applicants for validation based on the pre-established criteria is, in general, a more effective approach than the random selection process. A greater percentage of the applicants selected under pre-established criteria make corrections which result in a larger average positive eligibility index change, hence greater savings, to ED.

The pre-established criteria were developed to help identify students likely to misreport information on their Basic Grant applications. The selection for 1979-80 was divided into four groups:

- The A group was intended to identify applicants who had been rejected for reporting incomplete or inconsistent information, and who, through one or more corrections, establish eligibility.
- The B group relates to applicants who were previously ineligible, and who, through correction, became eligible
- The C group identified eligible applicants who significantly reduce their highest eligibility index by corrections.
- The D group identified applicants who reported having four or more family members in post-high-school education and/or applicants whose reported financial data was estimated instead of based on actual tax information.

Each of the above groups were further separated into subgroups or criteria which more clearly specified applicant characteristics and behavior.

The study showed that some pre-established criteria were more effective than others in identifying potential misreporters. The most effective pre-established criteria were A-6 (income and taxes paid inconsistent); A-10 and 11 (SSA

match-related edits); A-14 and 15 (VA educational benefits reported as less than half-time); and B-3 (combination of applicant corrections cause applicant to become eligible with large EI change. Some pre-established criteria (A-6, A-10, and A-11) have higher post selection corrections than others and higher eligibility index changes. The least effective pre-established criteria were A-1 (information for household size and marital status was missing on a prior transaction); A-4 (income negative, zero or less than \$51); and A-12 and 13 (VA match-related edits). Some of the "not so effective criteria" were dropped in 1980-81. (Criterion A-1 was dropped for 1980-81. A-4 was changed to reflect total income less than a dollar value per household member). Others relatively ineffective in 1979-80 and 1980-81 may be dropped in 1981-82 (e.g. criteria A-12 and A-13).

The correction behavior of validation applicants indicates that, on the average, 30 percent of all applicants selected for validation corrected information on the SERs post selection with an average eligibility index change of 130 points (55 percent raised their eligibility index and 19 percent lowered their eligibility index, thus becoming more eligible). The random selection showed that an average of 23 percent of all applicants selected for validation corrected information on the SERs post selection with an average eligibility index change of 50 points (45 percent raised their eligibility index and 26 percent lowered their eligibility index, thus becoming more eligible).

Most applicants who are validated have corrections which result in greater eligibility index changes than those applicants who are not validated. Validation seems to help students correct more selectively (that is, make corrections that affect their SEI, not random corrections that do not affect their potential award) but yet does not significantly impede their progress through the processing and award system. The study suggested that this selective corrections method occurs because these applicants have contact with the financial aid administrators who provide the added information the applicants need to make corrections.

Another component of the study is a statistical match of Basic Grant reported data with IRS reported income information. The Basic Grant/IRS data match will provide additional information on the degree of accuracy of applicant reported data both before and after validation. Results of this analysis are expected to be available later this month.

**The July-December 1980 Bulletin Index will appear in the February 1981 issue.**

## Note to Financial Aid Administrators

We have been asked to announce that the Basic Grant Program's quality control project contractor, Advanced Technology, Inc. of McLean, Virginia (see: 1980 November-December *Bulletin*, p. 15), is looking for student financial aid administrators to conduct on-campus interviews and audits as part of a nationwide quality control assessment of the Basic Grant Program.

Full-time, temporary positions (March 23 - May 22) will involve challenging work, exposure to different settings, and substantial travel. Candidates must be reliable, with ability to work independently and adhere to a two-month schedule. B.A. and recent student aid experience required.

Please send resumes and names of three references (include one supervisor/employer) to:

Michael Kunc  
Advanced Technology, Inc.  
7923 Jones Branch Drive  
McLean, Virginia 22102

*The Bulletin* is published by the Office of the Deputy Assistant Secretary for Student Financial Assistance, U.S. Department of Education, 400 Maryland Avenue, S.W., ROB-3, Room 4682, Washington, D.C. 20202; Patricia A. Dorn, Editor. No permission is necessary to reproduce the text of any article in this issue.

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# The Bulletin

January  
1981

Department of Education

Office of Student Financial Assistance

## Notes From the Deputy Assistant Secretary

On December 16, 1980, the Congress passed a Continuing Resolution which postpones the October 1, 1980 effective date of the increase in the National Direct Student Loan (NDSL) interest rate from 3 to 4 percent. Effective July 1, 1981, the interest rate will be 4 percent. Therefore, all the loans you make through June 30, 1981, should reflect a 3 percent interest rate. All the other changes required by the Education Amendments of 1980 remain in effect.

We recognize that this change at this time creates administrative problems for many institutions. Therefore, we are providing the following guidance for you in carrying out this change:

1. For those institutions that have made loans under the new provisions, the notes made at 4 percent continue to be in effect; however, you must change the interest rate from 4 to 3 percent. This change need not be initialed by the student, but only by the staff member making the change. Students should be notified of the change either by letter or in the exit interview.

2. Institutions that have not made loans under the new provisions may continue to use their existing notes at the 3 percent rate and may simply notify students in writing during the exit interview or by letter of the new deferment, cancellation, and credit bureau provisions.

The Department of Education understands the difficulty institutions may have in immediately complying with all the statutory changes made in the NDSL Program during the 1980-81 award year, since these changes were made during the middle of the year. Accordingly, when monitoring an institution's compliance in the NDSL Program for the period October 1, 1980 through June 30, 1981, the Department will not assess liabilities against an institution for errors or technical timing problems involved in implementing these changes.

Sincerely,

  
Thomas A. Butts

## Basic Grant Administrative Allowance Authorization Letters Mailed

On October 3, the Education Amendments of 1980 were signed into law. One of its provisions authorizes an administrative allowance of \$10.00 per award year for each valid Basic Grant recipient enrolled at eligible institutions participating in the Basic Educational Opportunity Grant (BEOG) Program. Authorization letters were mailed to institutions in late December. The initial amount each institution will receive is based upon the total number of valid, unduplicated recipients the institution reported during 1979-80.

Upon disbursing a student's first payment, institutions are entitled to draw down \$10.00. These funds should be drawn down from DFAFS in the normal manner. When you report your administrative allowance expenditures on the DFAFS 27 report, use the document number indicated in the authorization letter. Please note that this is a different document number than the one used to report disbursements to students; the first digit is an "R" rather than a "P". *Do not report the expenditure of administrative allowance funds on your institutional progress report.*

The final adjustment to your administrative allowance will be calculated after we receive and process your June 30 Progress Report. The amount will be equal to \$10.00 times the total number of valid, unduplicated recipients your institution has reported for the 1980-81 award year. Since any Student Eligibility Reports (SERs) submitted after your end-of-year (June) Progress Report will not be considered in determining the administrative allowance, it will be to your advantage to submit all valid SERs in your possession on or before the July 15, 1981 June Progress Report due date.

The following categories will be excluded when we determine your institution's valid recipient count for purposes of the administrative allowance:

1. Ineligible or rejected (insufficient information) SERs. (These should not be reported to ED under